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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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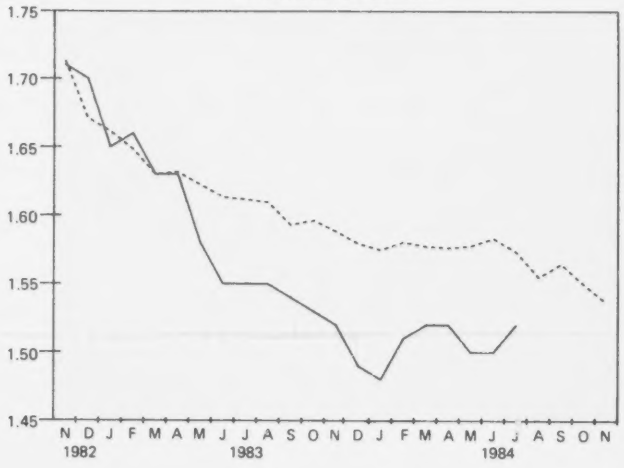
The Economy Cools Down . . .

As the economy enters the final quarter of 1984, concerns are developing that it may also be the final quarter of the current business expansion. The chorus which voiced fears as recently as two months ago that the economy was growing too fast, has changed its tune and now believes that the pace of business has slowed to the point where it may be on the verge of a new recession. Those who have this view would seem to have plenty of evidence to back them up. Retail sales, home construction, factory orders, industrial production and industry operating rates are all either flat or declining.

However, most statistics show no signs of the excesses which usually precede a downturn in the economy. The late summer lull suggested by the economic data on sales and output probably reflected in part fears of an auto strike and its impact on inventories held by suppliers to, and customers of the auto industry. Some of these sluggish numbers seem to be strengthening once again, now that the strike is settled. Continuing high levels of employment and incomes, strong consumer confidence, subdued inflation, a lack of excess inventories and a highly stimulative fiscal policy all point to further—albeit more moderate—growth in the months ahead. The fact that the latest reading of the government's leading economic indicators series shows an increase after two months of decline would seem to support this view.

There is no doubt that the business climate cooled during the third quarter. The government's "flash" report on the gross national product indicated an increase of only 3.6 percent at an annual rate—less than half of the 8½ percent annual rate of rise posted during the first six months of this year. This transition to a more moderate pace of growth is not unusual at this point in the business cycle. Indeed, if there is anything unusual about this slowdown, it's that it took so long for it to occur. For even with the slower rate of growth in the third quarter, the ongoing recovery is still stronger than it has been at this point in the typical postwar business upswing. Since the upturn in business activity began at the end of 1982, inflation-adjusted gross national product has risen nearly 12 percent compared with an average seven-quarter rise of little more than 11 percent. This recovery's second year has so far been stronger than its first—the reverse of the usual cyclical pattern.

REAL INVENTORY-SALES RATIO, MANUFACTURING AND TRADE
CURRENT RECOVERY (LINE) VS. AVG. OF 3 PREVIOUS RECOVERIES (DOT)
EXCLUDING 1980-81 RECOVERY



The deceleration in economic activity from its rapid pace of the previous two quarters augurs well for the expansion's longevity. This is because it should be helpful in preventing a renewal of inflation and the expectation of inflation by keeping the pace of business slow enough so that price increases are difficult to come by—as would be wage hikes. And, of course, if inflation can be kept at bay, interest rates would be more likely to hold steady or even decline a notch. Both developments, clearly, are necessary for the health of any business expansion.

. . . But Consumers And Business . . .

While consumers were more cautious during the summer, they should become more expansive during the coming months. For despite a two-year buying spree fueled by a sharp rise in consumer borrowing, people in the aggregate remain in good shape financially as well as psychologically. For one thing, the value of their assets is up, thanks to the high level of stock and bond prices—not to mention the increased value of most homes. Also, their use of

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debt, although up sharply this year, remains well below the peak levels relative to incomes that were reached nearly five years ago. In addition, people's buying power (take-home pay adjusted for inflation) is rising at the fastest rate in 11 years, thanks to high levels of employment combined with moderate inflation and lower taxes. People's attitudes seem bright, according to various surveys of consumer confidence. This is supported by the latest reading of the so-called "misery" index—the combination of inflation and unemployment—which today is half of what it was four years ago and the lowest since 1973.

As for autos, their recent low sales levels appear to have been due to a shortage of new cars, not exhausted demand. For several months, sales have outpaced production, causing dealer inventories to decline. Now that the auto strike is settled, the availability of new cars will increase, suggesting that sales will go up, too.

. . . Will Support Future Growth

Nor is the household sector the only source of economic strength. For one thing, inventory-sales ratios remain low (see chart on page 1). And although businessmen will remain cautious in their restocking because of high financing costs, the absence of the ability to save money by buying before prices rise—not to mention the widespread use of computers which makes it easier for companies to maintain lean inventory levels—some

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/26/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	164.830	+ 2.501	+ 2.082
Loans to Depository Inst.	6.896	– .427	+ 5.618
Float	– .078	– .891	– 1.190
Total Reserve Bank Credit	180.985	+ 2.029	+ 7.377
Treasury Deposits with Federal Reserve Banks	8.410	+ 2.808	– 5.747
Currency in Circulation	175.382	– 1.208	+12.954
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.836	– 3.408	+ 4.781
	9/26/84		
Member Bank Reserves:			
Total Reserves Held	37.806	– .321	+ 2.317
Excess (Deficiency)	.631	– .034	+ .182
Net Free Reserves	.184	– .097	+ .270
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (9/17/84)	549.6	+ 2.5‡	+ 5.8‡
M2 (August '84)	2,289.5	+ 5.5	+ 7.2
M3 (August '84)	2,867.8	+ 7.4	+ 9.6
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/28/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.75%	9.85%	10.00%
* Federal Agencies	10.79	11.02	11.64
* Project Notes—Taxfree (46% Taxable Equivalent)	11.02	11.30	11.85
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.95	11.20	11.45

‡Finance Company Paper—Prime

5- 14 days	10.75%
15- 29 days	10.75
30- 59 days	10.70
60- 89 days	10.60
90-179 days	10.45
180-239 days	10.30
240-270 days	10.30

‡* Bankers' Acceptances

Oct.	10.70%
Nov.	10.75
Dec.	10.75
Jan.	10.77
Feb.	10.77
Mar.	10.78

‡Industrial Paper—Prime

30- 89 days	10.65%
90-120 days	10.65

†Federal Funds Effective Rate 11.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84 $ 3,645	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84 $ 1,639	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84 7.1	10.1	9.4
Change in Consumer Prices (new series)*	Aug '84 6.0%	3.6%	4.8%
Change in Producer Prices*	Aug '84 – 1.2%	3.6%	4.8%
Civilian Employment (Thousands of Persons)†	Aug '84 104,969	105,395	101,484
Unemployment as % of Civilian Labor Force†	Aug '84 7.5%	7.5%	9.5%
Personal Income*	Aug '84 $ 3,043	$ 3,027	$ 2,760
Leading Indicators Composite Index (1967=100)†	Aug '84n 164.5	163.7r	158.9
Industrial Production Index (1967=100) †	Aug '84 166.2	165.8	151.8
Net Change in Consumer Installment Credit †	Jul '84 $ 7.11	$ 7.83	$ 3.71
U.S. Merchandise Trade Balance †	Aug '84n –$ 9.86	–$ 14.06	–$ 7.16
Plant and Equipment Expenditures*	4th Q'84 $318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Aug '84 1,537	1,763	1,873
New Construction Expenditures*	Jul '84 $ 311.4	$ 309.3	$ 272.3
Total Business Inventories †	Jul '84 $ 551.3	$ 546.8	$ 501.4
Total Business Sales †	Jul '84 $ 411.0	$ 414.1	$ 370.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

inventory accumulation seems likely to occur, if for no other reason than to accommodate the greater buying needs that will accompany the upcoming Holiday shopping season. Obviously, this will boost production and employment levels.

Business capital spending remains ebullient, too. Real business fixed investment has soared by a record 25.6 percent since this recovery got underway. This compares with an average rise of less than 13 percent at this stage of the typical postwar expansion. A survey of capital spending plans conducted by the Commerce Department in late July and early August showed that U.S. businesses intend to spend 13.3 percent more this year on new plants and equipment than they did last year, after inflation is netted out. If these plans materialize, 1984 will post the largest annual rise in capital spending in almost two decades.

Finally, the fiscal-monetary policy mix now in place should be supportive of the business expansion well into next year. The pace of Federal, state and local government spending on a variety of goods and services will hardly skip a beat in the coming months, providing fuel to overall spending levels. On the other side of the coin, with inflation modest and the money supply numbers well-behaved, monetary policy, too, is unlikely to cease supporting the business recovery. As long as neither the Fed nor private sector companies step on the brakes, no recession will occur. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/12/84)	156,916	+ 346	+10,209
New York City (9/19/84)	35,313	+ 207	+ 3,679
Commercial Paper (9/19/84)	227,343	+ 2,253	+49,518

Bank Loans

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks			
Nationwide (9/12/84)	244,450	+ 434	+28,987
New York City (9/19/84)	65,374	+ 332	+ 7,440
	Total Loans and Leases Gross Adjusted		
Nationwide (9/12/84)	624,182	+ 1,120	+95,173
New York City (9/19/84)	141,426	– 27	+22,995

Financial Markets

	Friday 9/28/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.59%	– .08	+ 1.47
180-Day Bills†	10.99	– .02	+ 1.59
Longest Bills†	11.30	– .03	+ 1.58
Recent Issues:			
11⅞s 9/30/86	11.97	– .01	
13⅝s 6/30/88	12.55	+ .28	
12⅝s 8/15/94	12.37	+ .05	
12½s 8/15/14	12.12	–0–	
Municipals:			
Bond Buyer–20 Bond Index* (9/27/84)	10.15%	+ .20	+ .73
Blue List Total ($ Million)	$1,764	+ $201	+ $ 655
30-Day Visible Supply ($ Million)	$4,105	+ $391	+ $1,813
Total	$5,869	+ $592	+ $2,468
Corporates:			
Moody's Aa Composite (9/27/84)	13.12%	– .01	+ .57
30-Day Visible Supply ($ Million)	$ 810	– $485	+ $ 313
Stocks:			
Dow-Jones Averages:			
Industrials	1,206.71	+ 4.97	– 48.88
Transportation	517.61	– 1.08	– 66.81
Utilities	139.16	+ 3.85	+ 5.73
65 Stocks	474.04	+ 2.82	– 25.36
Standard and Poor's 500 Stocks	166.10	+ .43	– 3.41
N.Y.S.E. Composite Index	95.77	+ .10	– 2.30
N.Y.S.E. Avg. Daily Vol. for Week (000's)	86,282	–19,842	– 7,852

* 46% Taxable equivalent 18.80%.

† Bond equivalent.

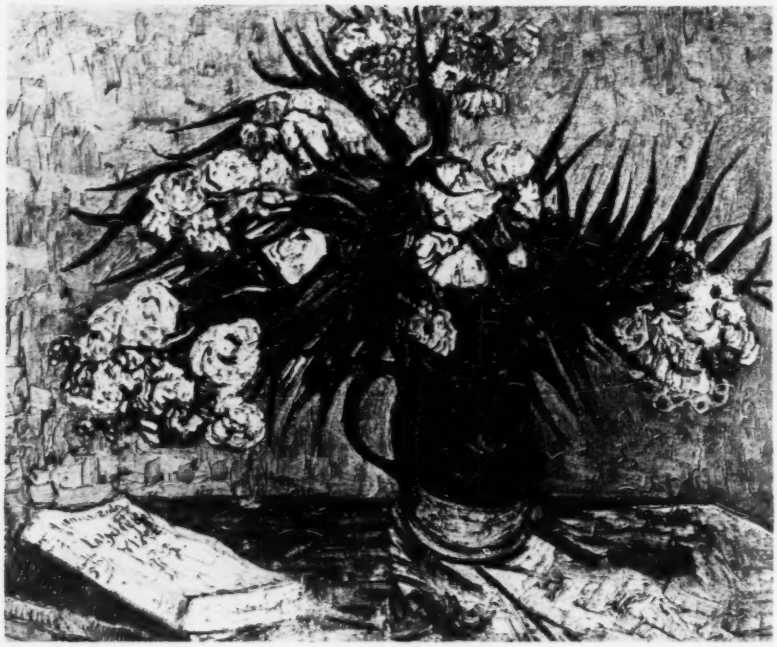
International Rates

	Friday 9/28/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	11.25%	10.63%
1 month	11.06	11.19
3 month	11.38	11.38
6 month	11.56	11.50
1 year	11.88	11.75
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.50%	12.50%
Long Term (7 to 15 yrs.)	12.45	12.45

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/28/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01631	61.32
Canada	.7597	1.3163
Denmark	.09120	10.9650
France	.1078	9.2800
Germany	.3307	3.0243
Italy	.0005311	1883.00
Japan	.004077	245.25
Mexico	.005000	200.00
Netherlands	.2934	3.4088
Switzerland	.4002	2.4985
U.K.	1.2480	.8013

VAN GOGH



IN ARLES

The Metropolitan Museum of Art
October 18-December 30, 1984

Sponsored by Manufacturers Hanover
and the Robert Wood Johnson, Jr. Charitable Trust

This exhibition gathers over 140 van Gogh works of art that have never been seen together before, and Manufacturers Hanover is pleased to help make it possible.

All visitors must have a ticket for a reserved date and time. Tickets available at the Uris Center of the Museum during all public hours. Also through Ticketron and Tele-Tron, a telephone service that accepts reservations with major credit cards. For ticketing information, call 570-3970.

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